

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Freeman Township	County Clare
Fiscal Year End March 31, 2006	Opinion Date August 17, 2006	Date Audit Report Submitted to State September 29, 2006	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

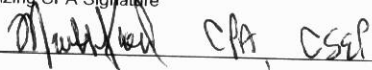
YES NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Burnside & Lang, P.C.		Telephone Number (989) 835-7721	
Street Address 5915 Eastman, Suite 100		City Midland	State MI
Zip 48640		License Number 1101012221	
Authorizing CPA Signature  CPA, CSEP		Printed Name Mark R. Freed	

FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN

FINANCIAL STATEMENTS
For The Year Ended March 31, 2006

FREEMAN TOWNSHIP

BOARD OF TRUSTEES

Mark Lightfoot

Supervisor

Rosemary Lightfoot

Treasurer

Patricia Humphrey

Clerk

Helen Bardallis

Trustee

Richard Wells

Trustee

TOWNSHIP POPULATION–2000

1,118

STATE EQUALIZED VALUE–2005

\$67,044,700

STATE TAXABLE VALUE–2005

\$45,836,627

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN**

**AUDITED FINANCIAL STATEMENTS
MARCH 31, 2006**

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Independent Auditors' Report

Members of The Township
Board of Trustees
Freeman Township
Clare County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Freeman Township, Clare County, Michigan, as of and for the year ended March 31, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board of Trustees. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, except for the effects on the financial statements of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Freeman Township, Clare County, Michigan, as of March 31, 2006, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The budgetary comparison information on page 18 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Midland, Michigan
August 17, 2006

Exhibit 1

**FREEMAN TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
March 31, 2006**

ASSETS

Cash and cash equivalents	\$ 475,250
Taxes receivable - current	34,530
Due from other funds	492
Capital assets:	
Land	8,750
Buildings, net	69,692
Township equipment, net	21,419
Total capital assets	<u>99,861</u>
Total assets	<u>610,133</u>

LIABILITIES

Due to other governmental units	8,262
Long-term liabilities:	
Portion due or payable within one year:	
Bonds and contracts payable	53,333
Portion due or payable after one year:	
Bonds and contracts payable	<u>53,334</u>
Total liabilities	<u>114,929</u>

NET ASSETS

Invested in capital assets	99,861
Restricted for:	
Road repair and maintenance	229,151
Garbage collection	85,118
Unrestricted	<u>81,074</u>
Total net assets	<u>\$ 495,204</u>

FREEMAN TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year Ended March 31, 2006

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
General Government:					
Township board	\$ 52,171	\$ -	\$ -	\$ -	\$ (52,171)
Supervisor	6,959	-	-	-	(6,959)
Treasurer	22,836	-	-	-	(22,836)
Assessing	28,974	-	-	-	(28,974)
Clerk	11,952	-	-	-	(11,952)
Elections	7	-	-	-	(7)
Board of review	866	-	-	-	(866)
Buildings and grounds	10,227	-	-	-	(10,227)
Cemetery	5,184	4,667	-	-	(517)
Public safety	67,917	8,479	-	-	(59,438)
Public works	120,444	60,535	-	-	(59,909)
Community development	6,421	1,516	-	-	(4,905)
Recreation and culture	1,118	-	-	-	(1,118)
Interest and fiscal charges	5,293	-	-	-	(5,293)
Total governmental activities	\$ 340,369	\$ 75,197	\$ -	\$ -	(265,172)
General revenues:					
Property taxes, levied for general purposes					51,115
Property taxes, levied for road maintenance					126,060
Property taxes, levied for fire protection					49,108
State revenue sharing					82,530
Interest earnings					1,598
Miscellaneous					381
Total general revenues					310,792
Change in net assets					45,620
Net assets-beginning					449,584
Net assets-ending					\$ 495,204

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
GOVERNMENTAL FUNDS BALANCE SHEET
March 31, 2006

	<u>General Fund</u>	<u>Road Fund</u>	<u>Fire Fund</u>	<u>Garbage Collection Fund</u>	<u>Total</u>
ASSETS					
Cash and cash equivalents	\$ 203,000	\$ 203,622	\$ -	\$ 68,628	\$ 475,250
Taxes receivable, net	5,761	14,361	5,661	8,747	34,530
Due from other township funds	492	11,168	2,601	7,743	22,004
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 209,253</u>	<u>\$ 229,151</u>	<u>\$ 8,262</u>	<u>\$ 85,118</u>	<u>\$ 531,784</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Due to other township funds	\$ 21,512	\$ -	\$ -	\$ -	\$ 21,512
Due to other governmental units	-	-	8,262	-	8,262
Total liabilities	<u>21,512</u>	<u>-</u>	<u>8,262</u>	<u>-</u>	<u>29,774</u>
Fund balances:					
Unreserved and undesignated	<u>187,741</u>	<u>229,151</u>	<u>-</u>	<u>85,118</u>	<u>502,010</u>
Total fund balances	<u>187,741</u>	<u>229,151</u>	<u>-</u>	<u>85,118</u>	<u>502,010</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 209,253</u>	<u>\$ 229,151</u>	<u>\$ 8,262</u>	<u>\$ 85,118</u>	<u>\$ 531,784</u>

The accompanying notes are an integral part of these financial statements.

FREEMAN TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
March 31, 2006

Total fund balances for governmental funds (Exhibit 3)	\$	502,010
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land	\$	8,750	
Buildings and improvements, net of \$40,258 accumulated depreciation		69,692	
Township equipment, net of \$6,927 accumulated depreciation		21,419	
Total capital assets			99,861

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at March 31, 2006 are:

2002 Michigan Transportation Fund Notes	\$	(106,667)	
			(106,667)

Total net assets of governmental activities (Exhibit 1)	\$	495,204
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FREEMAN TOWNSHIP
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended March 31, 2006

	General Fund	Road Fund	Fire Fund	Garbage Collection Fund	Total
REVENUES					
Property taxes and related fees	\$ 51,115	\$ 126,060	\$ 49,108	\$ -	\$ 226,283
Licenses and permits	8,754	-	-	-	8,754
State aid	82,530	-	-	-	82,530
Charges for services	3,307	-	-	-	3,307
Interest and dividends	1,598	-	-	-	1,598
Special assessments	-	-	-	60,535	60,535
Miscellaneous	381	-	-	-	381
Total revenues	147,685	126,060	49,108	60,535	383,388
EXPENDITURES					
General government	130,563	-	-	-	130,563
Public safety	16,208	-	51,709	-	67,917
Public works	38,147	29,757	-	52,540	120,444
Community development	6,421	-	-	-	6,421
Recreation and culture	1,118	-	-	-	1,118
Capital outlay	16,611	-	-	-	16,611
Debt service					
Principal	-	53,333	-	-	53,333
Interest	-	5,293	-	-	5,293
Total expenditures	209,068	88,383	51,709	52,540	401,700
(Deficiency) of revenues over expenditures	(61,383)	37,677	(2,601)	7,995	(18,312)
OTHER FINANCING SOURCES (USES)					
Proceeds from debt obligations					
Transfers-in	-	-	2,601	-	2,601
Transfers-out	(2,601)	-	-	-	(2,601)
Total other financing sources and uses	(2,601)	-	2,601	-	-
Net change in fund balances	(63,984)	37,677	-	7,995	(18,312)
Fund balances-beginning	251,725	191,474	-	77,123	520,322
Fund balances-ending	\$ 187,741	\$ 229,151	\$ -	\$ 85,118	\$ 502,010

The accompanying notes are an integral part of these financial statements.

**FREEMAN TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
March 31, 2006**

Net change in fund balances - total governmental funds (Exhibit 4)	\$	(18,312)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Loss on Disposal of Fixed Assets		(339)
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Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$16,611) exceeded depreciation (\$5,673) in the current period.		10,938
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Note proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

2002 Michigan Transportation Fund Notes	53,333	53,333
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Change in net assets of governmental activities (Exhibit 2)	\$	45,620
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**FREEMAN TOWNSHIP
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES
CURRENT TAX FUND
March 31, 2006**

ASSETS

Cash and cash equivalents	\$ 492
Total assets	<u>492</u>

LIABILITIES

Due to other funds	<u>492</u>
Total liabilities	<u>492</u>

NET ASSETS

<u>\$ -</u>

The accompanying notes are an integral part of these financial statements.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Township:

A. Reporting Entity

The Township is governed by an elected five-member board. The accompanying financial statements present the Township's operations for which the government is considered to be financially accountable. The Township has no component units and is not responsible for any jointly governed organizations.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contribution that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st. Real property taxes not collected as of March 1st are turned over to Clare County, which advances the Township 100% for the delinquent taxes.

The 2005 taxable valuation of the Township totaled \$45.8 million, on which ad valorem taxes levied consisted of .8281 mills for Township operating purposes, .6211 mills for fire protection, .5000 special assessment millage for fire protection, and 2.8145 mills for road repair and maintenance. These amounts are recognized in the General, Fire and Road Funds as current tax revenue.

The government reports the following funds:

The General Fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Road Fund accounts for the repair and maintenance of roads within the Township.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

**C. Measurement Focus, Basis of Accounting and Financial Statement Presentation
(Continued)**

The Fire Fund accounts for the Township's fire protection contract with Lincoln Township, Clare County.

The Garbage Collection Fund accounts for providing garbage and rubbish collection financed by an annual special assessment.

The Current Tax Collection Fund is used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other fund's. Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds”.

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

D. Assets, Liabilities, and Net Assets (Continued)

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Building and improvements	25 to 40 years
Furniture and equipment	5 to 15 years

Long-Term Obligations—In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information—Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds except the debt service funds. All annual appropriations lapse at fiscal year end. The budget document presents information by fund, function, department or activity, and line items. The legal level of budgetary control adopted by the governing body is the department or activity level.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 2. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY (Continued)

Excess of Expenditures Over Appropriations in Budgeted Funds—During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund—Cemetery	\$ 2,250	\$ 2,583
General Fund—Road Maintenance	30,000	30,900
Garbage Collection Fund	42,000	52,540

NOTE 3. DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers acceptances of United States banks' commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

The Township Board has designated one bank for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bank accounts and certificates of deposit, but not the remainder of State statutory as listed above.

The Township's deposits and investment policy are in accordance with statutory authority.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

At year-end, the Township's deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and cash equivalents	\$ 475,250	\$ 492	\$ 475,742
Total	<u>\$ 475,250</u>	<u>\$ 492</u>	<u>\$ 475,742</u>

The breakdown between deposits and investments is as follows:

Bank Deposits (checking and savings, certificates of deposit)	<u>\$ 475,742</u>
Total	<u>\$ 475,742</u>

The bank balance of the government deposits is \$475,742, of which \$100,000 is covered by federal deposit insurance.

The Township's investments are categorized as risk category 1, which gives an indication of the level of risk assumed by the entity. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

Investment and Deposit Risk

Custodial Credit Risk – Deposits. Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned. The government does not have a deposit policy for custodial credit risk. At year end, the Township had \$375,742 of bank deposits (certificates of deposit, checking and savings accounts) that were potentially uninsured and uncollateralized.

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

Investment and Deposit Risk - (continued)

Custodial Credit Risk – Investments. For an investment, custodial credit risk is the risk that, in the event of the failure of the counterparty, that Freeman Township not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. At year end, the District had no investments.

Interest Rate Risk. Interest rate risk is the risk that the value of investments will decrease as a result of a rise in interest rates. State law limits the allowable investments and the maturities of some of the allowable investments. The Township currently has no investments, therefore they have no potential interest rate risk.

NOTE 4. CAPITAL ASSETS

Capital asset activity of the Township for the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 8,750	\$ -	\$ -	\$ 8,750
Capital Assets Being Depreciated				
Buildings and improvements	101,850	8,100	-	109,950
Furniture and equipment	21,534	8,511	1,700	28,345
Subtotal	123,384	16,611	1,700	138,295
Less Accumulated Depreciation for				
Buildings and improvements	37,509	2,749	-	40,258
Furniture and equipment	5,362	2,924	1,360	6,926
Subtotal	42,871	5,673	1360	47,184
Net Capital Assets Being Depreciated	80,513	10,938	340	91,111
Governmental Activities Capital Assets–Net of Depreciation	\$ 89,263	\$ 10,938	\$ 340	\$ 99,861

Depreciation expense was charged to programs of the Township as follows:

Buildings and improvements - Buildings and grounds	\$ 2,749
Furniture and equipment - Clerks's office	543
Furniture and equipment - Assessor's office	1,216
Furniture and equipment - Buildings and grounds	1,165
Total depreciation expense	<u>\$ 5,673</u>

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 5. INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General	\$ 492	General	\$ 21,512
Road	11,168	Tax	492
Fire	2,601		
Garbage Collection	7,743		
Total	<u>\$ 22,004</u>	Total	<u>\$ 22,004</u>

NOTE 6. LONG-TERM DEBT

The Township can issue bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Special assessment bonds provide for capital improvements that benefit specific properties, and will be repaid from amounts levied against those properties that directly benefitted from the construction. In the event that a deficiency exists because of unpaid or delinquent special assessments at the time a debt service payment is due, the government is obligated to provide resources to cover the deficiency until other resources (such as tax sale proceeds or a re-assessment of the district) are received. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Contractual obligation activity can be summarized as follows:

	Interest Rates	Balance 04-01-05	Additions	Payments	Balance 3-31-06
2002 Michigan Transportation Fund Notes	2.65% to 4.15%	\$ 160,000	\$	\$ 53,333	\$ 106,667
Total		<u>\$ 160,000</u>	<u>\$ -</u>	<u>\$ 53,333</u>	<u>\$ 106,667</u>

**FREEMAN TOWNSHIP
CLARE COUNTY, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
March 31, 2006**

NOTE 6. LONG-TERM DEBT (Continued)

Scheduled principal maturities of long-term debt for years subsequent to March 31, 2006 are as follows:

<u>Year Ending March 31</u>	
2007	\$ 53,333
2008	53,334
	<hr/>
	<u>\$ 106,667</u>

Total interest costs for the year ended March 31, 2006 was \$5,293, all of which was charged to expense.

NOTE 7. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township has purchased commercial insurance for these types of claims. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three years.

NOTE 8. PENSION PLAN

The Township provides pension benefits to its elected officials through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Participants are required to contribute 7.5% of their salary, and the Township is required to contribute an additional 7.5% of the participant's salary. In accordance with these requirements, the Township contributed \$3,451 during the fiscal year ended March 31, 2006.

FREEMAN TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended March 31, 2006

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 49,000	\$ 49,000	\$ 51,115	\$ 2,115
Licenses and permits	18,500	18,500	8,754	(9,746)
State aid	115,000	115,000	82,530	(32,470)
Charges for services	6,450	6,450	3,307	(3,143)
Interest and dividends	2,050	2,050	1,598	(452)
Rents and royalties	300	300	-	(300)
Fines and forfeits	250	250	-	(250)
Miscellaneous	500	500	381	(119)
Total revenues	192,050	192,050	147,685	(44,365)
EXPENDITURES				
General Government:				
Towship board	63,700	63,700	52,171	11,529
Supervisor	10,150	10,150	6,959	3,191
Treasurer	27,500	27,500	22,836	4,664
Assessing	40,000	40,000	35,930	4,070
Clerk	15,500	15,500	11,409	4,091
Elections	3,250	3,250	7	3,243
Board of review	1,700	1,700	866	834
Buildings and grounds	19,250	19,250	14,413	4,837
Cemetery	2,250	2,250	2,583	(333)
Public Safety:				
Liquor enforcement	385	385	385	-
Building inspections	6,750	6,750	6,661	89
Electrical inspections	6,200	6,200	5,803	397
Blight enforcement	4,200	4,200	3,359	841
Public Works:				
Street lights	300	300	125	175
Road maintenance	30,000	30,000	30,900	(900)
Transfer station	10,750	10,750	7,122	3,628
Community Development:				
Planning commission	4,700	4,700	2,883	1,817
Zoning board of appeals	1,800	1,800	245	1,555
Zoning administration	4,450	4,450	3,293	1,157
Recreation and Culture:				
Library contract	1,200	1,200	1,118	82
Total expenditures	254,035	254,035	209,068	44,967
Deficiency of revenues over expenditures	(61,985)	(61,985)	(61,383)	602
OTHER FINANCING SOURCES (USES)				
Transfers-out	-	-	(2,601)	(2,601)
Total other financing sources and uses	-	-	(2,601)	(2,601)
Net change in fund balances	(61,985)	(61,985)	(63,984)	(1,999)
Fund balances-beginning	251,725	251,725	251,725	-
Fund balances-ending	\$ 189,740	\$ 189,740	\$ 187,741	\$ (1,999)

August 17, 2006

Members of the Township
Board of Trustees
Freeman Township
Clare County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Freeman Township (the "Township"), for the year ended March 31, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS

Overspending of Budgeted Amounts

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of amounts appropriated in the General Fund and Special Revenue Funds. We recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

Inter-fund Procedures

During our audit, we noted certain transactions that are routinely conducted between funds were either not performed and/or not recorded correctly (expenses being paid directly from the tax account verses depositing tax money into the correct funds to pay their own expenses). It is imperative that the Clerk and Treasurer be knowledgeable in fund accounting and understand the importance of the correct recording of transactions between funds. Therefore, we recommend the Clerk and Treasurer gain an understanding of fund accounting and the function of individual funds so that transactions between funds can be properly performed and recorded.

Bank Reconciliations

Audit adjustments were required to reconcile cash balances to the general ledger. As stated in the in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The Clerk's records must agree with or reconcile to the Treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation along with the above reports monthly until the Township Board is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

General Ledger

The general ledger is the primary financial record of the Township and must reflect all financial activity. During our audit, we noted the Current Tax Collection Fund is not maintained by the Clerk on the General Ledger. We recommend the Clerk establish this fund on the General Ledger to report this information on a monthly basis so that Township Board of Trustee members can perform their financial oversight responsibility.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Financial Oversight

The general limitations in any smaller municipalities like Freeman Township requires that Board of Trustee members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions. Our comment here is intended to emphasize the importance of its oversight.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the March 31, 2006, financial statements, and this report does not affect our report on those financial statements dated August 17, 2006. We have not considered internal control since the date of our report.

This report is intended for the information of the members of Freeman Township Board of Trustees and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in cursive script that reads "Burnside & Lang, P.C.".

BURNSIDE & LANG, P.C.